

APPROVED BY COUNCIL ON 11/16/04

ECONOMIC DEVELOPMENT ADVISORY COUNCIL MEETING

JULY 28, 2004

9:00 A.M. – 3:00 P.M.

301 SOUTH PARK - CONFERENCE ROOM 228

HELENA

COUNCIL MEMBERS PRESENT

Dave Gibson, Chair	Mark Sansaver
Jim Atchison	Paul Tuss
Steve Holland	Linda Twitchell
Erin Lutts	Senator Mike Sprague
Tony Rudbach	Elaina Zempel
Senator Don Ryan	

COUNCIL MEMBERS ABSENT

Evan Barrett	Representative Brennan Ryan
Kathie Bailey	Mark Simonich
Jane Karas	Representative John Sinrud
James Klessens	Anita Varone

STAFF PRESENT

Andy Poole, Business Resource Division Administrator
Quinn Ness, Regional Development Corporations Manager
Gary Morehouse, Bureau Chief, Regional Development Bureau
Janice Wannebo, Program Specialist, MicroBusiness Finance Program
Philip Belangie, Program Officer, MicroBusiness Technical Assistance Program

GUESTS

Cynthia Johnson, Montana Association of Counties, Pondera County
Sheli Jacoby, Loan Officer, Gateway Economic Development Corporation in Helena
Pat Murdo, Research Analyst, Legislative Services Division, State of Montana Legislative Branch

The meeting was called to order by Chairman, Gibson at 9:08 a.m. beginning with roll call of the council members (see attendance above). Gibson indicated a quorum was present to conduct official business.

Gibson congratulated the following council members on their re-appointments to this Council for a new four-year term to end July 23, 2007:

1. Tony Rudbach
2. Evan Barrett
3. Elaina Zempel
4. Anita Varone
5. Paul Tuss

An updated Council list showing the new terms was provided at this meeting.

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MINUTES

A draft of the minutes from the March 3 & 4, 2004 meeting were mailed to the Council for their review prior to this meeting. Gibson asked members if there was any discussion or changes to the draft. With no comments from the Council, Rudbach **MOVED** to approve the minutes and Atchison **SECONDS** the motion. Passed unanimously.

CERTIFIED REGIONAL DEVELOPMENT CORPORATIONS (CRDCs)

Quinn Ness distributed copies of the Certified Regional Development Corporations (CRDCs) Program Development Process flowchart pointing out that during the last meeting, the process was in the RFP Evaluation phase by the Committee. The RFP Evaluation Committee consisted of Dave Gibson, Mark Simonich, Andy Poole, Gary Morehouse, and Quinn Ness.

Ness also distributed a color map outlining the regions that each of the twelve (12) CRDC organizations serve along with a handout listing each CRDC organization's contact information. Once the CRDC organizations were designated, the Department began negotiating contracts with each organization, which took until June 30th to complete the negotiations. Once the contracts were signed, grant funds were awarded to the CRDCs according to the distribution formula (see copy of the Administrative Rules 8.99.302 MCA regarding the Assistance Grants – Distribution). A breakout of total funds awarded to each CRDC was also distributed for review. A total of \$425,000 is awarded annually to the CRDCs. The FY2004 funds have been fully distributed under the current twelve (12) CRDC contracts.

Holland asked how next year's process will be handled. Ness indicated the state reviews the CRDCs annually for compliance with program requirements for certification and contract performance. The overall contract period is seven years beginning January 30, 2004 as stated in the RFP. If the contractor is performing in accordance with their contract, the Contractor will maintain their certification status. If the CRDC organization is not performing per their contractual requirements, the Department does have the discretion to de-certify them as a CRDC as outlined in their contracts, at which time the Department would issue a new RFP for that designated region. Ness wondered if the same committee members should conduct the discretionary funding awards next year or should a new committee be formed from the Economic Development Advisory Council members to oversee the annual process.

Rudbach stated that Ravalli County representatives asked him to discuss a few issues with this Council concerning the designated CRDC organization in Missoula that could potentially change. Flathead County is not part of a CRDC designated region at the present time and there is a concern in the Missoula area regarding the leadership at the current CRDC organization in Missoula. Rudbach indicated that Ravalli County would possibly like to realign with another CRDC organization. Ravalli County was wondering if the lead organization can be changed? If so, what is the process? Rudbach also indicated that if this does not happen, Ravalli County may withdraw their support leaving only one (1) county, Missoula County, which is not a multi-county region and therefore would not meet the definition of a CRDC. Poole stated it is a local decision of the County to support the organizations of their choice. The Department would need a letter from the Ravalli County Commissioners stating they no longer want to support the lead CRDC organization in their region bringing the total number of counties to less than two. They can opt to do this at any time. Rudbach asked what is the process for the lead CRDC organization to change? Poole mentioned three deciding factors: 1) if a County decides to drop out of the designated region bringing the total number of counties to less than two; 2) if the

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Department found the CRDC in default of the contract; or 3) if the partners in a CRDC region jointly decided new leadership was necessary and all parties mutually agreed in writing. Poole indicated that the Montana Community Development Corporation (MCDC) is the CRDC contractor in this region and if Ravalli County were to withdraw their support for MCDC, the Department would be required to issue another RFP for that region. Poole also stated that currently, the Department has a contract with MCDC and to our knowledge they are performing in accordance with that contract. The Council discussed what would happen to funds if a CRDC was de-certified, and the Council recommended that the contracted obligations would be honored for funds already committed however, attempts would be made to recover the remaining un-obligated funds as of the date of de-certification.

Ness also pointed out that two CRDC regions did not receive discretionary funds based on their capacity building that was outlined in their RFP proposal. Ness also indicated that some CRDCs may not have been sure how the discretionary funds were to be used. For the next calendar year, the discretionary monies may be different because it is driven by the distribution formula, which takes into consideration the number of counties, population and size of the geographic region. In addition, the number of CRDCs also affects the amount of the discretionary funds available.

TREASURE COMMUNITIES

Ness acknowledged that House Bill 76 states the Certified Regional Development Corporations (CRDCs) shall administer the Treasure Community designation and reporting process for the communities and counties in the region and they shall deliver services and resources to the citizens, businesses, and treasure communities throughout the region. Therefore, Ness would like to develop a survey to the CRDCs to get their input. Twitchell spoke with the people in her region to find out what they think and their recommendation is that since they are region with sparse population they would prefer to complete a community assessment. Twitchell also indicated that Great Northern Development Corporation would like to focus on community readiness and education. Agriculture diversification is their focus and they felt it was important along with capacity building, which would broaden Great Northern Development Corporation's base. The community assessment would create a 5-year work plan to guide them. Community signs are important and we need to come up with something that shows the community is involved in a statewide program.

House Bill 76 – Section 4 (d) reads “Treasure Community” means a community that meets and maintains requirements for certification established by the department and administered by the certified regional development corporation.” Ness acknowledged the Department has not yet developed the requirement for certification. Gibson asked what is the intent of the program and the direction we need to go in the future? The communities should be allowed to focus on their strengths and work with the CRDCs to get the support and resources to accomplish the project. Gibson indicated it should be carefully designed so we don't duplicate services. The council needs to establish guidelines and a focus so that a community can determine what they need. Tuss thought we should talk to the CRDCs to determine how the Treasure Communities should be established. Ness will develop a survey to the CRDCs to first find out if they want to send another survey to the Treasured Communities. Holland thought the survey should contain specific questions not broad based questions. Do the Treasured Communities need to be part of a CRDC? Answer: Yes

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Ness indicated there are four areas that CRDCs may need to work with regarding the Treasure Communities: 1) capacity building, 2) education, 3) recognition (sign/plaque) and 4) community preparedness. Tuss thought the CRDCs were already doing this. The Council agreed a formalized process should be designed and used as a benchmark. Ness will draft a survey and allow 2-3 weeks for the CRDCs to respond. Erin Lutts feels it is important to establish a standard set of rules for different levels but we need to recognize that the communities are different. Currently there are no funds available for "Treasure Community" signs however there may be some funds available through the CRDCs, possibly using the discretionary funds. Ness will investigate the costs involved for the "Treasure Community" signs and report back to the Council on his findings.

NATIONAL DEVELOPMENT COUNCIL (NDC) TRAINING UPDATE

Wannebo reported the Department of Commerce hosted the National Development Council (NDC) Economic Development Finance Professional Certification Program Series #1 training the week of May 24-28, 2004 at the Wingate Inn in Bozeman. A total of 43 participants attended the first series out of a total of four series to be held in Montana. Other financial sponsors were the Governor's Office of Economic Opportunity, Montana Economic Developers Association, Montana Community Finance Corporation, USDA Rural Development and First Interstate Bank. Their financial contributions kept the registration costs to attend this four-series training down to \$650 per person compared to \$950 per person. Series #2 is scheduled during the week of October 25-29, 2004 at the Holiday Inn Downtown in Helena, Series #3 is scheduled the week of May 2-6, 2005 at the Holiday Inn Grand in Billings and the final Series #4 will be scheduled around the first week of October 2005.

AEO Training

Department of Commerce staff, Janice Wannebo, Ann Desch, and Philip Belangie, recently attended the Association of Enterprise Opportunity's (AEO) Micro-enterprise Development Regional Training held in Coeur d' Alene, Idaho. The premise of AEO's Regional Training Institute is to provide low-cost high quality training in business development, technical assistance, lending and management training tailored to specific needs and taught by some of the foremost experts and innovators in the industry. Issues covered were: Best Practices In Underwriting Micro-Loans, Designing An Effective, High-Performance Micro-Enterprise Program, Developing An Effective Fundraising Plan, Rural Micro-Enterprise Organizations, Developing An Effective Marketing Plan, Designing a High-Impact, Cost-Effective Technical Assistance Program and Developing Effective Client Screening and Assessment Tools. All of the materials listed above were provided to the attendees on a CD to access in the future. The Department of Commerce is investigating the feasibility and costs associated with bringing this AEO micro-enterprise development training to Montana.

MICROBUSINESS FINANCE PROGRAM

3/31/04 MBDC Quarterly Report

Wannebo distributed the March 31, 2004 MBDC Quarterly Report as she reviewed the numbers of the MicroBusiness Finance Program's impact. The report also shows a summary of the MBDCs portfolio quality and financial condition and a breakout of only the loans approved from January 1 – March 31, 2004. The graphs show more detailed data on each MBDC such as asset coverage ratio, matching funds remaining, number of loans outstanding, loan-out rates, write-

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offs, delinquencies, allowance for loan losses, loans per region, FTEs created and retained, and average loan size.

MICROBUSINESS FINANCE PROGRAM SUBCOMMITTEE REPORTS

MBDC Certification Standards Subcommittee

The MBDC Certification Standards subcommittee consisting of Jim Atchison, James Klessens, Kathie Bailey, Tony Rudbach, Evan Barrett and Linda Twitchell met via conference call on Friday, July 16th. They began their meeting by selecting Tony Rudbach as Chair for this subcommittee. Wannebo reported that the following four MBDCs are approaching re-certification:

- Great Northern Development Corporation's (Wolf Point) contract expires October 1, 2004
- Montana Community Development Corporation's (Missoula) contract expires October 15, 2004
- Bear Paw Development Corporation's (Havre) contract expires November 1, 2004
- Northwest Montana Human Resources Development Council's (Kalispell) contract expires November 1, 2004

High Plains Financial, Inc. in Great Falls has also requested a new MBDC application that was mailed to them June 10, 2004 and will eventually need to be reviewed by members of this subcommittee.

This subcommittee reviewed the application to become a new certified MBDC and concluded that not much could be streamlined in the new application because all of the information that is requested is needed for the subcommittee to make an accurate decision. The subcommittee was able to streamline the re-certification application for an existing MBDC, thereby only requiring them to submit updates or changes they have made recently to their micro-loan policies and procedures, marketing plan, verification of regional support and matching funds requirements. The other data in which the Department needs to make a reasonable decision to re-certify them as an MBDC is provided by the MBDCs in their quarterly reports. The subcommittee also decided to slightly change the MBDC re-certification scores as follows: community and regional support is changed from 10 points to 15 points, and the strategic/marketing plan is changed from 20 points to 15 points.

As the MBDC applications arrive at the Department, Wannebo will work with Ann Desch and Andy Poole to determine which members of the subcommittee will review the applications and will distribute them to the subcommittee for their review. A conference call will be scheduled to discuss the scores and determine if more data is needed for the subcommittee to make their recommendation.

MBDC Awards Subcommittee

Wannebo explained the MBDC Awards subcommittee consisting of Erin Lutts, Steve Holland, Elaina Zempel and Mark Sansaver met via conference call on June 23, 2004 to discuss the

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nomination process and to decide if any changes to the nomination packet were needed prior to mailing the nomination packet to the MBDCs.

The subcommittee agreed to make the following changes to the 2004 MicroBusiness of the Year nomination forms prior to their distribution:

- √ Have the business owner write a brief narrative explaining the future goals and objectives of the business including key elements of the businesses' strategic plans. This could be included under the "Sustainability" section of the nomination form.
- √ Have the business owner provide narrative if owner is taking "draws" thereby affecting the net profit of the business.

The subcommittee did not make any changes to the scoring sheet associated with the nomination form. The MBDCs are allowed from July 1 → September 30, 2004 to submit one nomination. Following the September 30th deadline, this subcommittee will review and score each nomination to decide the 2004 MicroBusiness of the Year winner. This subcommittee will keep the Council updated on the progress at the next meeting.

MBFP Policy Subcommittee

The MicroBusiness Finance Program Policy Subcommittee members consist of Dave Gibson, Mark Simonich, Paul Tuss, Anita Varone, Senator Don Ryan and Representative John Sinrud. Paul Tuss, Senator Don Ryan, Representative John Sinrud and Andy Poole. Due to conflicts with some members schedules, Andy Poole, Paul Tuss, Senator Don Ryan and Representative John Sinrud were able to meet on Tuesday, July 27, 2004 from 1:30 – 4:00 p.m. to discuss the following MicroBusiness Finance Program issues: 1) Distribution of Development Loan Funds in Montana; 2) Training; 3) Interest Rate Reduction; 4) Statutory Changes.

Following in-depth discussion of the above issues, this subcommittee recommended the following to the full Council:

1. Distribution of Development Loan Funds in Montana – Devise a revolving loan fund structure at the State that addresses the MBDCs passive interest on their Development Loan balance and availability of funds for existing MBDCs in the future.
 - a. A one-time re-calculation of each loan need will be performed that will require repayment of un-lent development loan funds that exceed the average number of loans processed each year by the MBDC. A handout was distributed to the Council outlining the formula used to determine if an MBDC would be required to return un-lent MBDC funds. The formula takes into consideration each MBDCs historical micro-loan performance to determine an adequate reserve for the MBDC to maintain.
 - b. Allocate a reserve for existing MBDCs to draw down additional funds when they have reached a 90% loan-out rate or the amount remaining to be lent falls below \$35,000.
 - c. The reserve set aside for this revolving loan fund will be \$400,000 at a minimum. This would leave approximately \$700,000 to lend to new MBDCs that are certified.

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2. Training – The subcommittee recommends the Department arrange for Association of Enterprise Opportunity (AEO) Regional Training Institute training in Montana as discussed previously in the meeting.
3. Interest Rate Reduction – Based upon an evaluation of the income and expenses of operating the program and providing funding for training to the MBDCs, the Policy subcommittee does not recommend a reduction in the interest rate charged for development loans provided existing and new training is made available to the MBDCs to continue to improve resource delivery in meeting the goals of the program.
4. Statutory Changes – The Legislative Auditors report recommends three possible scenarios for the legislature to consider with the program. The subcommittee does not recommend the elimination of the program with the repayment of development loans, nor does it recommend that Montana banks assume control of this higher-risk micro-lending program. This subcommittee believes there is a real value and great hope in the continuation of the program with modifications, as needed, including those discussed above in issues 1, 2, and 3.

Senator Don Ryan would like the Department to investigate using a “multiplier” to determine the program’s leverage factors. The Department will work closely with the new Economists at the Department on this project and will report back to the Council on its progress.

Rudbach **MOVED** to approve the subcommittee recommendations above. Lutts **SECONDS** the motion. Pass unanimously.

OLD BUSINESS

None

NEW BUSINESS

Tony Rudbach reported that currently a window of opportunity is open for federal initiatives for “pork barrel” (\$15-\$20 million) money for next year and wondered if this Council should draft the initiative? This is a good source of “seed money”. Rudbach indicated the initiatives should be drafted by October with a deadline of January 2005. Rudbach felt that a state proposal should come from this Economic Development Advisory Council. The Shared Leadership Program might be the appropriate venue to carry such legislation. The Council agreed to discuss this at the next meeting in November 2004 and decide whether this Council should make recommendations to endorse this.

NEXT MEETING

Council members agreed to schedule the next meeting between Election Day (November 2) and Thanksgiving (November 25). Wannebo will work closely with the Council to determine an appropriate date within that timeframe depending on their schedules.

Lutts asked if other Council members are interested in conducting these meetings by teleconferencing? With no objections from the Council members, Wannebo will research the feasibility and costs associated with teleconferencing and poll the members electronically regarding their preference.

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James Klessens asked Andy Poole if the Department could write a letter of support concerning the Brownfields Grant Application. This Council may want to expand the statute to include the CRDC definition. Dave Gibson and Andy Poole will work with James Klessens on this issue.

PUBLIC COMMENT

Patricia Murdo, Research Analyst, for the Legislative Services Division addressed the Council concerning possible legislation that would affect the MicroBusiness Finance Program.

The Economic Affairs Interim Committee was requested by the State Auditor to introduce legislation to cover the administrative costs to create a Capital Formation Act for Venture Capital (i.e. Bill #LC0150). A draft of the proposed legislation is available by contacting Pat Murdo. Possible funding options would be money from the general fund or to use funds from the MicroBusiness Finance Program pool. Murdo indicated the next meeting of the Economic Affairs Interim Committee is scheduled for September 7, 2004. Murdo indicated she would report back to the Economic Affairs Interim Committee regarding this Council's recommendation, during this meeting, to revolve the MicroBusiness Finance Loan pool funds more effectively to new and existing MBDCs.

Elaina Zempel asked the Department staff if a decision has been made on the CDBG ED grants following the Department's public comment timeline concerning moving the administrative responsibilities to the CRDCs? Poole indicated the Director of Commerce has not decided the policy for CDBG ED grants.

The meeting adjourned at 2:15 p.m.



Respectfully Submitted